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No-Fault Capitalism Meets Lemon Socialism

If you think the S&L crisis was bad, take a look at the solution

In the early days of the savings and loan crisis the joke was that in Texas if you bought a toaster oven they gave you a free S&L. It turns out not to have been much of a joke. The Resolution Trust Corporation -- the government's misnamed S&L caretaker that is neither producing a resolution nor inspiring trust -- is engaged in a massive giveaway that may make Teapot Dome look like a demi-tasse cup.

The RTC is already the nation's largest operator of financial institutions and, according to the *New York Times,* "quickly becoming the biggest financial institution in the world, the largest single owner of real estate, the largest liquidation company and the largest auction firm." This ungainly monster of America's late empire period was established without meaningful public debate nor with any serious consideration of alternatives.

But official Washington is not alone in its odd indifference to the nature of the S&L solution. The media --even the op-ed pages and Sunday feature sections -- have largely ignored the question. The topic was not listed on the agenda of The Other Economic Summit -- the progressive alternative to the meeting of economic ministers -- even though TOES gathered this year at virtual ground zero of the crisis: Houston, Texas. And Ralph Nader's major concern seems to be which group of taxpayers will bear the fiscal burden of the scandal.

Cost estimates continue to soar -- as high as $500 billion if you believe congressional analysts or $1.4 trillion (that's right between the GNP of West Germany and Japan, folks) if you accept the calculation of a knowledgeable *Wall Street Journal* correspondent. But the press, the politicians and even the public interest groups seem far more concerned about how the crisis came about than what we are going to do about it.

One has to admit the former matter is enthralling and appalling. Put rather neatly by one former FBI fraud specialist to the *Village Voice,* the S&L crisis is perhaps the largest criminal conspiracy ever created. The FBI currently has some 8000 cases of S&L fraud before it, 1300 of them gathering dust for lack of funds to pursue them. Another 13,000 tips haven't even been followed up, according the *Newsweek.* According to Rep. John Conyers, to date the government has recovered less than 2% of the money lost through criminal fraud in thrift cases, even though fraud was involved in at least three-quarters of S&L insolvencies.

The sum of money involved is staggering. *Newsweek* estimates that even at a conservative $250 billion cost, this is an amount that would pay for existing education programs for the next four years; or nearly pay for universal health insurance and long-term care for the next four years; or overhaul the nation's water systems, repair all bridges and have money left over to start fixing highways. There are currently some 40,000 law

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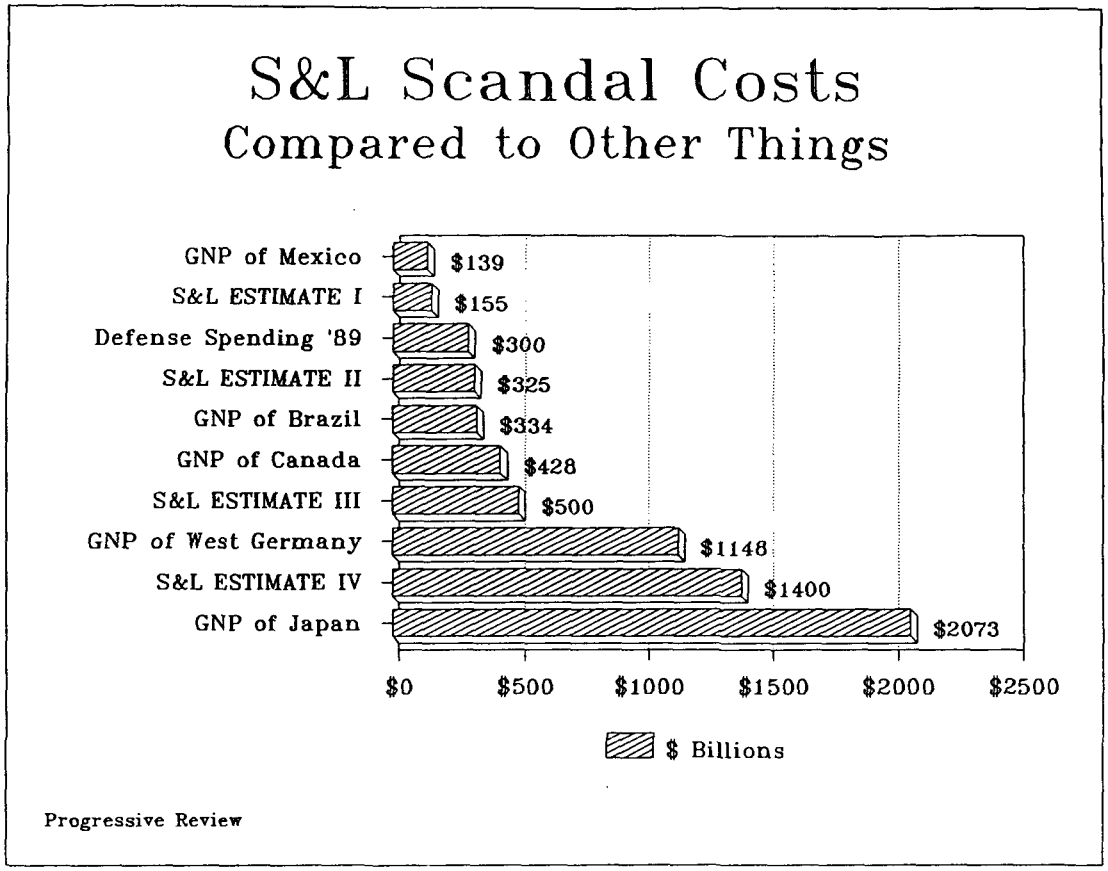

To give an idea of scale, this chart compares various estimates of the cost of the S&L bailout with some of the world's other high ticket figures. S&L I represents a cash resolution of the crisis today. S&L II and III represents the cost amortized assuming different interest rate conditions. S&L IV is the estimate of Wall Street Journal reporter Christian Hill in calculations published in the Stanford Law and Policy Review. These include the cost of hidden subsidies and tax breaks.

suits over all this money and the figure is expected to double by year's end.

But recounting neither the sum nor the sin involved leads to a solution. After all, the broad outline of the S&L scandal have been known for some time yet in its wake the president and the Congress have fashioned an extraordinarily shoddy, dangerous, expensive and corrupt jury rig to correct the matter.

Not only is the government failing to solve the problem, it is creating massive new scandals, inequities and public deficits. Not the least of these is the likelihood that the major beneficiaries of the S&L bailout will be the very states responsible for it. An S&L in stodgy Wisconsin, for example, ran an ad boasting, "We dare to be dull." But that will not protect the people of Wisconsin from having to cough up an estimated $592 apiece to bailout such states as Texas where Cleveland State University professor Edward W. Hill estimates the per capita benefit of the bailout will be $4,775.

Among the other clear beneficiaries of the bailout are the quick-rich financiers who, with their soul brothers, helped to create the scandal. Small business and ordinary citizens are not invited to the RTC's extraordinary fire sales. You can't get a catalog and order by mail. Yet *The New York Times*

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reported on July 3 that RTC owns 35,908 properties and "though no specific list has been released, the agency's holdings include coal and uranium mines, ranches and pasture lands, 162 golf courses, oil fields, marinas and boat yards, athletic clubs, garages, parking lots and mobile home parks. 84% of the total inventory is residential -- mainly in Texas." Public Citizen notes that the assets include "a buffalo sperm bank, a Nevada bordello, a windmill farm, a share of the Dallas Cowboys, [and] an entire town in Florida."

With a few exceptions -- such as the RTC's grudging, miserly and belated offering of housing to non-profit groups -- the marketing of assets is what they call in the trade a private sale. As a result you may not heard about the satellite auction that will take place in September to sell 98 properties worth $341 million. The government reports that buyers in Japan, Britain and Canada are expressing the most interest. You won't be able to get it on cable.

Billions of dollars worth of assets are being traded at prices that challenge even Crazy Eddie's Emporium in the midst of a recession Memorial Day weekend, -- but for the benefit only a handful of huge corporations and redundantly wealthy financial hustlers. The overhead for these sales is on us.

Playing with matches

We know -- or should know by now -- that the crisis was created in no small part by the gluttony and stupidity of advocates of the so-called free market running rampant through America's fiscal countryside. What you may not realize is how far the government's acquiescence went. For example, until the deregulation of the 1980s, S&Ls had to have at least 400 shareholders. By 1981, the government had made it possible for there to be only one shareholder and that shareholder didn't have to have any hard equity in the institution. It was also possible for a S&L to have only one

MITCH

This spring, when Mitch Snyder announced he was going to retreat to a monastery for awhile for reflection and renewal, I felt pulled to drop him a note thanking him for his witness, for the good it had done, for the wisdom and encouragement it had given others. In the note I quoted Emerson:

"The voyage of the best ship" said Emerson, "is a zigzag line of a hundred tacks. See the line from a sufficient distance, and it straightens itself to the average tendency."

I can not comprehend Mitch's last tack. But the average tendency of his life has been as inspiring as any I have known. At times humbling, at times guilt-provoking, at times incredibly catalytic and at times -- yes -- aggravating, this one scruffy amalgam of love and anger, intensity and gentleness led us to care far more about what it was easier to ignore -- the homeless refugees of the puerile, avaricious American dream of the 80s.

Lately we've been falling back to easier ways. The DC city council has just ordered a cruel retreat from the decency towards the homeless we overwhelmingly supported in Initiative 17. In San Francisco, on the very day Mitch died, Mayor Agnos ordered the arrest of homeless people sleeping in public places.

What effect this had on Mitch I don't know. I do know that in his last days he was organizing a massive drive for a referendum on the council action. As he met in the shelter to discuss the referendum last week, he patiently explained to a man reciting some of the new cynicism towards the homeless that no one in that 1400-bed shelter wanted to be there. Not even Mitch Snyder.

And I do know that we talked on the phone on Monday. He told me enthusiastically of the law suit being filed against the council and of the lawyers who were working on the case and would I be one of the plaintiffs. I said, sure, and he said -- as he did so often to so many people he had pulled to the cause in that soft gentle voice -- he said: "Thank you, my friend."

But I also know that Mitch lived a life in painful proximity to modern society's cruelest results and carried a terrible trusteeship for its victims. In recent months, there were voices -- most sadly among those in power and in the media -- indicating that we no longer needed to care.

For me, Mitch -- controversial, blunt and irascible as he was on occasion -- fit the best definition of a saint, which is to say that Mitch Snyder was a sinner who kept trying. I suspect the only eulogy he would want is a commitment to nothing more than the simple decency he espoused. Oh yes, and perhaps his own soft, gentle benediction: "Thank you, my friend." -- *Sam Smith*

From a WAMU broadcast, Washington, July 6, 1990

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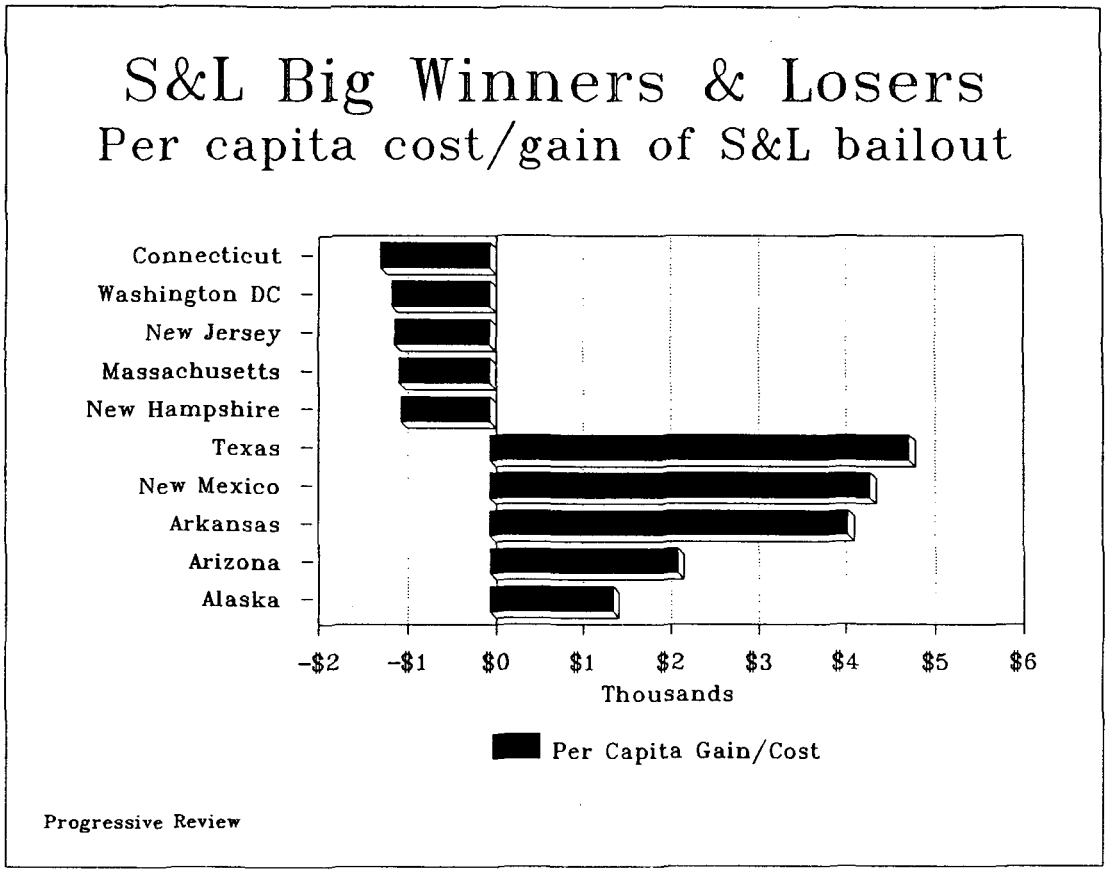

This chart, based on research by Edward W, Hill of Cleveland State University, shows the net per-capita benefits or costs in those states most affected by the S&L bailout.

borrower. Further, Congress raised the limit of federal insurance from $40,000 to $100,000 -- and that *per account* rather than per individual depositor. As Rep. Charles Schumer put it, "The government behaved like a fire insurance company that said to its customers, go ahead, play with matches. We'll cover you if anything goes wrong."

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Although some Democrats are smugly blaming the Republicans for the S&L disaster, the truth is that this bill passed the House 380 to 13 and by a voice vote in the Senate. In another spate of misdirected bipartisanship, Senator Jake Garn and Rep. Ferdinand St. Germain introduced successful legislation which allowed S&Ls to get into such new activities as junk bonds, unsecured commercial loans and major real estate projects.

Thanks to recent revelations we now have a better idea of why Congress didn't look after our interests more assiduously. As just one small example, one study has found that S&Ls gave $45 million to congressional candidates during the past three elections, including more than $1 million to members of current congressional banking committees. The aforementioned St. Germain, according to the newsletter *PACS and Lobbies,* received nearly $150,000 in campaign contributions, over a six year period. In contrast, S&L and HUD prober Henry Gonzalez received only $1750 during the same time.

Such facts blast huge holes in arguments that S&Ls were largely victims of changing world economics, regional recessions and other macro-economic rationalizations. They were, in fact,

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1933 and Today: Comparing Two Financial Crises

It is useful to compare the government's reaction to the S&L crisis to its reaction to the banking crisis that culminated in the banking holiday and emergency legislation of 1933. Although the causes of the two crises were quite different, so were other factors:

1933	1990
Underlying financial problem involved shortage of deposits.	Underlying financial problem involved failure of loan repayments
Fraud was not a major factor	Fraud is a major factor
Single bi-partisan goal: to save the banking system	Multiple and conflicting bi-partisan goals including changing the financial system (even to extent of eliminating S&L industry), avoiding blame, escaping political and criminal liability.
Protection of average citizens' interest central to decisions.	Protection of major financial institution's interest central to decisions.
Long-range implications of actions thought through	Decisions driven by fire-sale mentality
Majority party not beholden to major financial interests	Both parties beholden to major financial interests.
Pressure for nationalization of banking industry by progressives such as Sen. Robert LaFollette, creating a political middle for FDR to work within.	No significant progressive pressure for radical solutions, hence politics of situation skewed heavily toward rightwing assumptions.
Administration and Congress moved decisively. Within five days of FDR's inauguration, emergency banking legislation was passed with only 40 minutes of House debate. From introduction to president's signature it took only eight hours.	Administration and Congress moved indecisively. Early actions were driven by attempt to conceal from public the true extent of the problem. When situation got out of hand, legislation was passed hastily with inadequate forethought.
Problem affected 18,390 banks	Problem affected 2600 savings & loans
Administration handled specific cases quickly. About two thirds of all banks were opened under government license four days after bank holiday was declared. Another 1300 banks were reopened a month later and within nine months another 1200 banks were reopened and the remaining 2000 would be reopened as soon as financing from the Reconstruction Finance Corporation could be arranged.	Administration handles specific situations at snail's pace. The Resolution Trust Corporation dealt with only 200 out of 450 failed thrifts in its first eleven months, with another 260 S&Ls expected to go under in the next year.
Specific situations handled by small bureaucracy in decentralized fashion with banks placed under conservatorships.	Specific situations handled by large centralized bureaucracy in Washington, adding the inefficiency of scale to other problems.
Emphasis on recapitalization and low-interest loans. Government allowed to participate in recovery by holding preferred stock in commercial bank. At one point, the RFC held $1.3 billion in commercial bank stock.	Emphasis on government subsidies and lemon socialism. Rightwing paradigm prevents government from engaging in self-supporting solutions.
Heavy White House pressure on banking industry to cooperate. Appeal to patriotism, implicit threat of nationalization.	No political or financial burden placed on S&L industry as a whole. Political leverage of White House lies fallow.

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victims of the avarice of their owners, licensed in their greed by the United States Congress and the executive branch. And the media hardly said a mumblin' word.

It is this same cast of characters that have given us -- or are overseeing -- the so-called S&L bailout. The same hidden agendas, the same fiscal fast shuffles, the same class of beneficiaries, the same lack of media concern for the import of public actions.

The drama is reminiscent of corporate reorganizations described many decades ago by Thurman Arnold in *The Folklore of Capitalism:*

"In reality the struggle which attended the 'insolvency' of a great organization could be nothing other than a struggle for political control of that organization. The symbols were debts and credits and sales, and men had to plan their practical campaigns in those terms. This created a situation in which the rules of debts and credits became like the platforms in a political campaign. They didn't mean anything. They were full of contradictions. . . The conflict could only be resolved by a public drama where the rules paraded in dress clothes, while a political machine directed the play from behind the scenes."

Behind the public drama of the S&L solution is the most egregious example to date of no-fault capitalism and lemon socialism. The former is the remarkable principle that -- notwithstanding all the fawning over the "free market economy" -- our largest business institutions are philosophically, fiscally and criminally exempt from the ultimate consequences of laisse faire. The latter is the equally inconsistent principle that to maintain the free market the government is responsible for anything out of which private enterprise can't make a profit. It may not, however, help support this magnificent non sequitur through activities that might actually provide income for the government.

No, the rules of the game are that a major industry is allowed to make whatever mistakes it wishes in pursuit of the holy grail of free enterprise, the costs of which to be fully borne by the taxpayer.

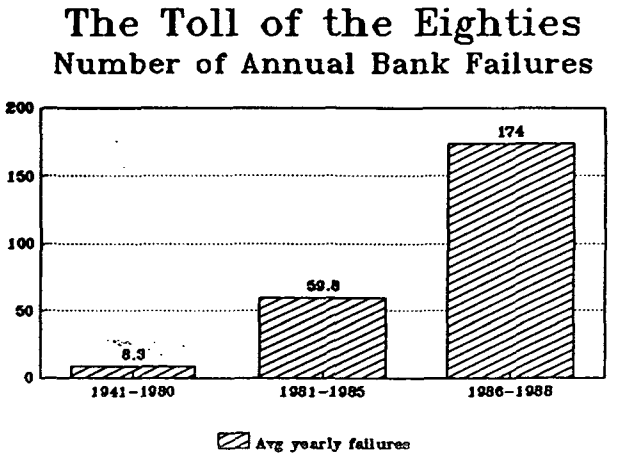
Further, the S&L solution has the hidden goal of moving America towards increasing financial oligopoly. The government is prepared to guide, assist, regulate and tax to accomplish this goal. This sort of economic policy has been seen before in fully developed form and it has a name: fascism, described by Mussolini biographer Adrian Lyttelton as "the product of the transition from the market capitalism of the independent producer to the organized capitalism of the oligopoly." As Italian fascist economic theorist Alfredo Rocco put it, such an economy "is organized by the producers themselves, under the supreme direction and control of the state."

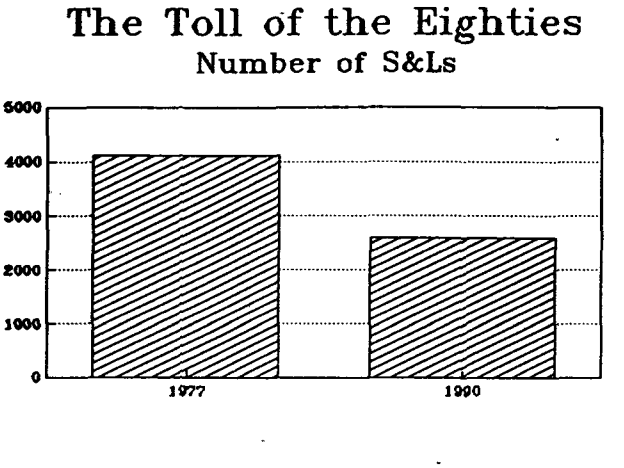
The media: unskilled and inattentive

What has taken place certainly involves fraud, malfeasance, misfeasance and nonfeasance. But beyond that, what we are experiencing approaches a fiscal coup. Using the not unreasonable cost estimate of $500 billion we are talking about a sum the size of the combined 1986 assets of General Motors, Exxon, Ford, IBM, Mobil, General Electric, ATT, Texaco, Dupont, Chevron, Chrysler Philip Morris and Amoco.

Our last line of defense -- the media -- has been absorbed in the human interest and fraud aspects of the crisis, but woefully unskilled in reporting what is really going on. Reading separate stories about an RTC deal is unnerving. In one S&L case, *The New York Times* listed an institution's assets at $1.8 billion, while the *Washington Post* pegged them at $3.3 billion. Deposits were $2.1 billion in the *Times* and $5.2 billion in the *Post.* Remember now, we are talking *billions.*

In another story, the *Times* put the government's annual assistance to an S&L deal at $250 *million;* the *Post* called it $250 *thousand.* The same *Post* story made it seem the new purchaser





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THE ROAD NOT TAKEN

There has been a stunning lack of discussion of alternative approaches to the S&L problem. In fact, the plan represents an escalation in no-risk subsidization of big business even in comparison with such recent precedents as the Chrysler bailout, in which the government retrieved money through exercising stock warrants. Below are some alternatives:

o **Provide for government profit-sharing.** Although this has occurred to some degree, even in these cases it has been inadequate. After all, in private enterprise, if you put up the bulk of the money, you expect more than 20% of the profits.

o **Wait for the market to improve.** The sale of government-held assets at prices depressed by current economic conditions and further depressed by the urge to dump them is foolish and costly. The government is ideally positioned to wait for improved conditions.

o **Keep a stake in the business.** The government could take stock in companies buying failed thrifts as part of the deal.

o **Don't pay off depositors who don't need their money.** In some failed thrift cases, the government is writing checks to the depositors for the amount in their account. This is not necessary. The money will probably just be put into an account somewhere else. These are, after all, savings. The institution getting the new account will then go out and loan the money for a profit, thus providing another hidden subsidy to the financial industry. It could be cheaper, assuming a medium-term resolution of the problem, to keep accumulating the interest charges.

o **Tax the S&L industry for its rip-off of the public.** The argument that successful S&Ls should not be held accountable for the failures of their soulmates totters on the history of the crisis. Because of extraordinary lobbying and financial contributions, the entire industry is, in no small part, to blame for this crisis. A surtax on industry profits would be in order.

o **Institute a windfall profits tax:** Part of the losses could be recovered through a windfall profits tax on income and capital of gains of companies purchasing S&L assets from the government.

o **Decentralize resolution of specific cases.** Imagine, for example, that all bankruptcies in the country were handled through a central Washington bureaucracy and one can get an idea of the fallacy of the current approach to the S&Ls. It would probably be far better, to treat each situation on a more decentralized basis, using court-appointed conservators to manage matters and to decide on the amount and nature of federal assistance to request. Among other things, this would reduce the political intrusion on these decisions.

o **Lease rather than sell.** Operate on the principle of shopping mall owners who know a sale is here today and gone tomorrow but a lease you can have forever.

o **Use loans rather than loan guarantees. And get collateral.** The shift towards loan guarantees by the government is a dangerous one with most of the benefits accruing to the no-fault capitalists. It represents yet another hidden subsidy to the financial industry, essentially providing it with no-risk loan clients.

o **Trade assets for stock in growing companies.** Allow the taxpayer to enjoy capitalism, too. If the stock doubles, the government has, in effect, gotten twice what it would have gotten for selling the asset outright.

o **Make a virtue of necessity.** Depending on how you look at it, 20,000 units of real estate can be a burden -- or it can be a housing program. Groups like ACORN would like to see the latter alternative, but have received little help from the administration. Similarly, office buildings could be used to relocate federal agencies, golf courses could become Job Corps centers and garages can be turned into homeless shelters. It's all a matter of how you look at it.

Start a Bank: With many of the S&L failures concentrated in a few states, there is the opportunity to reorganize them as state banks, modelled on the North Dakota state bank established decades ago to aid farmers mistreated by eastern financial institutions. Some S&Ls could be turned into cooperative banks or credit unions. Capitalization could from low-interest loans or proceeds of other S&L assets and aggressive fraud recovery. With far less assistance and with far greater social good, they too could be turning a profit in a year or so, just like James M. Fail, who put up $1000 for $1.85 billion in federal assistance.

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had put up $60 million of his own money (of a promised $70 million); the *Times* explained that the figure was only $1000. The rest was borrowed.

These examples are not cited to nitpick but to point out that not even journalists and copy editors can keep the scale of this scandal in perspective.

More significantly, important S&L stories are relegated to the business pages despite their enormous effect on every American. As a result many readers may have missed, for example, a February 3, 1989, financial page story in the *Washington Post*. The story, just as the government started rushing pell-mell to dump S&Ls, began:

"The head of the General Accounting Office yesterday criticized the government's year-end fire sale of 200 failing savings and loans, saying taxpayers would have paid less in the long run if the S&Ls had been turned over to the government or closed. The Federal Home Loan Bank Board, which oversees and regulates the thrift industry should have held onto the S&Ls rather than promising an estimated $60 billion in tax breaks to the investors who agreed to buy the ailing institutions."

The GAO said the Federal Home Loan Bank Board weighted its assumptions in favor of sales by not including tax breaks and calculating unrealistic interest rate figures.

The GAO boss, Charles Bowsher, testifying before the Senate, said it would have been cheaper if the regulators had done nothing. Bowsher proposed that insolvent savings and loans be placed in receivership until regulators could figure out whether it would be cheaper to shut them down or merge them into other institutions.

(Although little noted, the administrative costs of the S&L bailout are phenomenal in themselves. The *Times* estimates them at $37 billion.)

And this was just the beginning. In a more recent example, the media tended to regard as technical information the news that the Office of Thrift Supervision would temporarily allow the strongest S&Ls to lend up to 60% of their capital to a single developer for residential construction. This is four times the amount allowed under the bailout law. Most Americans remain unaware that its government is slipping back into practices that created the crisis in the first place. Does the media really believe it is too hard for the average person to understand the risks involved with a financial institution lending the majority of its money to one developer? Or does the media not understand it? Certainly the developers understand what is going on. AP quoted the economist for a homebuilders association as saying, "This will give us some breathing room."

Unasked questions

Among the questions in which the media has generally been disinterested are these:

o **How does each of these multi-billion dollar deals compare with what would happen in a normal business transaction? Or even in previous bids for the same company?** For example, in a recently-completed sale (which could end up costing taxpayers $2 billion), Greater Western Financial bought Centrust Savings Bank of Miami, including $2.1 billion in deposits and about $1.8 billion in mortgages and consumer loans. GWF, however, left the government with some $5 billion in loans to worry about. GWF is paying $86 million for this largely risk-free investment and it gets to turn back any assets within three months if they turn out to be worth less than expected. On the other hand, before Centrust was seized by the feds, GWF had offered $100 million, or $14 million more, for partial purchase of Centrust -- presumably including both good and bad assets. The difference is striking but neither the *Times* nor the *Post* seemed interested in the variance. The now prominent James M. Fail paid almost as much for an institution one-third as large as Centrust. Similarly, in a 1988 non-governmental deal terminated apparently because of environmental problems with some of the assets, Lomas & Nettleson proposed spending over twice as much (again presumably including everything -- good and bad) for Farm & Savings Association of Missouri, an operation half the size of Centrust. Such gross figures in themselves reveal little without much closer examination of the specific situation, but they do raise questions worth answering.

o **Are purchasers paying fair price for deposits?** A reasonable range, I'm told, might be between 3 to 5 cents on the dollar for a good core

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Roll over, Adam Smith

"Our initial reaction was to transfer the risk to the government. Any executive would react the same way"

-- Chair Timothy Hartman of NCNB Texas which was created in 1988 with the purchase of a 20% share of First Republicbank for $210 million. The government guaranteed the risk for loan losses and NCNB got all deposits, its choice of loans and some $2.8 billion in tax breaks. The New York Times estimates these will allow NCNB Texas to operate virtually tax free for another three to five years.

deposit. This is why giving away toaster ovens was in vogue for awhile. But what are bailout purchasers paying? Does anyone in the media or Congress care?

o Why are lists of assets for sale not readily available? Why has the media and Congress not demanded more prior information on these sales?

o Why has the media not done its own independent appraisals of various assets to check on the government's work? The rigging of appraisals was one of the causes of the S&L scandal. A 1985 study by the House consumer and monetary affairs subcommittee said, "Faulty and fraudulent real estate appraisals contributed directly to the insolvency of the nation's financial institutions and have helped cause billions of dollars of losses." There is no reason to believe this manipulation has ceased. As one small appraiser once told me: "There are different types of appraisals. There's an appraisal for an arms-length transaction. There's an appraisal for a deal between friends. There's an appraisal for a divorce settlement. There's an appraisal for insurance purposes and there's an appraisal for estate purposes. Depending on which appraisal you want, that table over there is worth anywhere from $50 to $500." Neither of us at the time had heard of appraisals for a government trying to get a $500 billion monkey off its back and keep campaign contributors happy at the same time.

o Are the government agencies involved in the bailout competent to do the job? Scattered reports from the field should raise far more concern than they have. For example, Rep. Bruce Vento tells of "growing reports of overpaid individuals running RTC-held institutions [and] of officers from failed institutions staying on the government payroll with six figure salaries."

Newsweek says of the RTC: "Many of its 3000 employees have little experience in the field." True enough. The government has advertised for staffers in banking magazines and the like but, as one banker put it, "who are you going to get willing to leave" a stable situation "for an 18-month career?" But if this is the case, what does it say for the underlying approach government has taken towards the S&Ls? If the approach is premised on staking the future of the worst financial crisis of our history on such people, what does it say about the premise? And why so little concern?

One of the more extraordinary tales to come out of the S&L crisis is the GAO report that found that the Federal Savings & Loan Insurance Corporation had netted only $57,000 on more than $3 million in S&L assets. The government spent over $2 million with four firms for communications equipment, inventory and appraisal, moving and warehousing. It turns out all four firms had the same owner and competitive bidding had not been used.

As New Jersey banking analyst James Marks notes, "When there's that much money flowing, there's always someone who figures out a way to stick his finger in and divert some of the flow."

o Who picked the real estate brokers, appraisers and outside lawyers involved in the bailout and how? We're talking $500 million in outside legal fees alone.

o How does the RTC -- and Congress and the media -- determine the difference between bad assets and bad borrowers? The fact that a borrower is going bankrupt does not reveal much about the nature of a particular asset. The media and much of the public seems to have bought the idea that the assets owned by failed S&Ls are all dogs. This is highly unlikely but helps to justify fire sale prices.

The wrong questions

On the other hand, the questions the media have asked often miss the mark. Because these questions are frequently planted by "official sources," however, they do reveal some of the hidden agenda behind the bailout. Here is an exquisite example from the *Times* in a recent weekend roundup of the news:

"Does the nation need a specialized industry to finance housing when it now has an efficient mortgage market? Does the nation need 13,000 independent banks and 3000 independent thrifts, or

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should institutions be allowed to consolidate across state lines, which would also enable them to spread their risks by diversifying their sources of loans and deposits? Most important is it time to consider changing the system for insuring deposits so that there is less of an incentive to gamble with taxpayer's money?"

The clue to the source of such queries is the phrase "efficient mortgage market," one of those delightful terms of art used by economists and financiers which would never be used by the average homeowner or wistful would-be purchaser. The latter would be more incline to favor words like "gouging."

In fact, the mortgage market is efficient only to the extent that it has made some people and some institutions a lot of money. It has also developed in such a way that the average age at which someone can afford their first home is rising rapidly, people are paying an exorbitant percentage of their income to finance their homes, and the former stability of the home mortgage has been increasingly replaced by such economic Russian roulette techniques as variable rate mortgages.

Contrary to the image being created by the media, the banking industry and its political toadies, the need for institutions to carry out the historic functions of a savings and loan is enormous and there is absolutely no way a headlong rush towards further ologopoly in the financial world is going to help meet that need.

Yet in the June 9 *Washington Post* an editorial stated flatly: "It's time, first of all, to abolish S&Ls." The chair of the Council of Mutual Savings Institutions, which represents the over half of all S&Ls that are mutually owned and locally managed and which have generally avoided scandal and bankruptcy, noted in a letter to the *Post* that it was the capital stock, publicly-owned institutions that were in trouble and added, without too much exaggeration:

"Mutual savings institutions have made this a nation of homeowners. They are the nation's primary home mortgage lenders. Commercial banks enter the home mortgage market only when interest rates are high; thrifts are in this market through all economic cycles."

But not if the *Washington Post* has its way.

Further, while obvious excesses in federal insurance that aid only large fiscal hustlers need to be ended, there is a clear danger that the current crisis will be used as an excuse to undercut the immensely valuable 60-year-old principle of federal deposit insurance as it applies to the ordinary citizen. We can expect little help from the *Times* in this matter.

On the other hand, in recent weeks the *Times* has gotten on aspects of the S&L case with a vengence, running circles around the *Post*. On July 8 it even elevated its coverage to lead story status on the front page. The legwork had been done not by the press, however, but by an investigator hired by a Senate subcommittee led by Senator Howard Metzenbaum. The deal was no secret. Phoenix newspaper coverage at the time raised enough questions to make a prudent politician or regulator pause. But what wasn't apparent from those early stories, however, was made clear in the piece by Jeff Gerth:

"An Arizona insurance executive with a history of legal and regulatory problems was allowed to buy 15 insolvent Texas savings and loan associations with borrowed money in 1988 and was promised $1.85 billion in federal subsidies in what Congressional investigators call the worst abuse found in the Federal bailout program."

According to the *Times*, James M. Fail had paid $1000 of his own money and borrowed $70 million for the deal establishing Bluebonnet Savings. And then: "Last year, with the help of the first $250 million of Federal payments pledged over 10 years, Bluebonnet was the most profitable large savings and loan in the country." It turns out that this profit was largely due to the federal payment, Bluebonnet having only made four loans in the period -- one to an ex-Bush aide.

Said Metzenbaum: "In all my years in public office, I have never seen such an abandonment of public responsibility as in the S&L deals of 1988, and the Bluebonnet deal is an abomination, the worst case we have found."

Keep in mind that we're no longer talking about the S&L crisis itself, but with the so-called solution, as applied less than two years ago.

The story of a century

In the first decade of this century, in the wake of the San Francisco earthquake, as other bankers helplessly watched their money disappear in fire and rubble, Amadeo Peter Giannini of the Bank of Italy walked 18 miles from his home to the bank where he retrieved some $80,000 in gold and silver from the vaults, loaded it on a wagon and made his way to his brother's house in the hills. There he opened for business, loaning the money to San Franciscans so they could rebuild their homes and businesses. He gambled that his action would encourage others to deposit funds they had been hoarding so he could loan still more. It worked and on this shaky foundation there arose the Bank of

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America, later to become the largest banking house in the world.

In the last decade of this century, in the wake of another great disaster, America has reversed the parable. The money of the taxpayers, needed for their homes and businesses, is being loaded on the wagons of the state for deposit in the vaults of those few who have the means, the political power and the gall to profit from the rubble of the fiscal crisis that has struck the S&L industry.

And America, its politicians, its captains of industry, its media, can think of little else to do about it except tacitly sanction the continued looting in the wake of the great capitalist riot of the 1980s. -- *Sam Smith*

Drug Busts

The environmental case for pot

According to Alan Bock, in the *Orange County (CA) Register,* marijuana legalization advocates are making a strong environmental case for their cause. A spin-off benefit of such legalization would be to allow people to grow hemp, one of the world's most remarkable plants. Hemp fibers are at least ten times stronger than cotton. They can be used to make paper with far fewer toxic chemicals and as a source of protein. The seeds are an excellent source of oil for paints and lubricants. Hemp has few natural enemies and thus could be easily grown without pesticides, unlike cotton whose cultivation uses much of the pesticides in the world.

Hemp lost out to cotton with the development of the cotton gin. It wasn't until the 1930s that a machine to separate hemp fibers from the rest of the plant was developed.

Since the 1930s about half the forests in the world have been cut down to make paper. But it takes one-quarter as much acreage to make paper out of hemp as it does to produce it out of trees. Bock notes: "If hemp were legal, it could become an economically viable and low-polluting source of fuel, paints and varnishes, textiles and fabrics, paper and even fuel. Hemp might replace trees as raw material for press-board or particle-board construction material. You could even make PVC pipe from hemp."

Drug war or black war

In an encouraging defection from the media's flakking of the Bush-Bennett Drug Circus, *The LA Times* on April 22 ran a major piece on the drug war's effect on blacks. Titled *Drug War or Black War*, the article quoted Atlanta police chief Eldrin Bell as saying:

"If we started to put white America in jail at the same rate that we're putting black America in jail, I wonder whether our collective feelings would be the same, or would we be putting pressure on the President and our elected officials not to lock up America, but to save America."

The racial disparities in the drug war are striking. 80% of all drug users are white but blacks are being locked up at much faster rate. Black and white pregnant women test positive for drug use to a similar degree, yet doctors are ten times more likely to turn black women over to child abuse authorities as they are in the case of white women.

The head of the Chicago narcotics committee told Ron Harris of the *Times*:

"There's as much cocaine in the Sears Tower or in the stock exchange as there is in the black community. But those guys are harder to catch. Those deals are done in office buildings, in somebody's home, and there's not the violence associated with it that there is in the black community. But the guy standing on corner, he's almost got a sign on his back. These guys are just arrestable."

Said Norval Morris, former Dean of the University of Chicago Law School: "The whole law and order movement that we've heard so much about is -- in operation -- anti-black and anti-underclass. Not in plan, not in design, not in intent, but in operation."

The Weather Report

Notes on the flag flashers

George Mitchell, who did not distinguish himself in the first round of superfluous furor over the flag got his act together when the flag prigs made their second assault on the First Amendment. Mitchell told the Senate this time: If someone burns the Constitution, would President Bush propose an amendment to the Constitution to prohibit that? If not, does that mean he has less respect for the Constitution than he does for the flag? If the his answer is yes, then where does he draw the line? How about the Declaration of Independence?

As was pointed out here the last time around, flag fetishists were a tad off the mark historically. We didn't have a uniform design for the flag until 1912. And as late as 1857, according to Daniel

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Boostin, American flags were routinely displayed with alternative graphics, some with 30 and some with 31 stars, some arranged in a circle and some in a diamond.

The flag fetish is largely a 20th century phenomenon. Alan Brinkley of the City University of New York Graduate School , sees the flag as a key element in the immigrant Americanization movement. He also points out that the flag was used as a symbol against radicals after World War I, since many blamed the radicalism on immigrants.

Two losses

Progressives lost two good friends in March. One was the revisionist historian William Appleton Williams who dared to say in the 1950s that the United States was an imperialist power seeking to impose its will on the world. As Foster Church wrote in *The Oregonian,* his books "influenced a generation of historians educated during the period. They also provided an intellectual framework for foes of the Vietnam War. Said one of Williams's graduate students: "He changed the whole course of the way in which Americans studied the history of American foreign relations," noting Williams's analysis of foreign policy as a reflection of American corporate interests. "He was reviled for that, but in the last decade, it has become standard."

His work put him under investigation by the notorious House Un-American Activities Committee, which even repeatedly subpoenaed an unfinished manuscript of a new book. Williams refused to turn over the work and spent the next 15 years being harassed by the IRS. In 1976 he wrote: "I prefer to die as a free man struggling to create human community than as a pawn of empire."

John Henry Faulk was a folk humorist who was fired from his job at CBS after the red-baiters targeted him. Unlike many other victims, Faulk counter-attacked with a libel suit. Much of the money for the suit came from Edward R. Murrow, who said he consider the sum an investment in America. Faulk won the suit five years later, but much of the award was eaten up by legal fees and in the meanwhile he was blacklisted from the airwaves.

Faulk's stories were peopled by wonderful characters such as Totsie, who was run down by the *Katy Flyer* and whose remains were so scattered that the family leased four acres for the funeral, just to be safe. The minister said it was the "biggest funeral he had ever preached. Acreage-wise." And Congressman Guffaw who believed in discussing issues "in plain English, the language my mother spoke, the language the *Holy Bible* was wrote in."

Six years ago I reviewed *the Uncensored John Henry Faulk* for the *Washington Monthly* and noted that "Faulk's writing is, like a Norman Rockwell painting, almost pathologically American. . .He seems to be saying that what keeps this country safe is that the good can tell the bad to shove it. Without the right of fierce, even eccentric individualism, we can't hope for a decent unity."

Furthermore. . .

Wisconsin has enacted the nation's toughest recycling law. It bans bottles, newspapers and other recyclable waste from dumps by 1995 and imposes a tax on big business to pay for handling trash.

Tuli, whose minimally cartoons grace these pages from time to time, notes the grim juxtaposition on the *New York Times* op-ed page of April 23. Featured was an article by the mother of a student killed in the Kent State massacre. She quotes Spiro Agnew before the incident, calling on police to imagine that students "are wearing brown shirts or white sheets, and act accordingly." Next to the article was a column by William Safire, former speechwriter for Spiro Agnew.

The World Health Organization estimates that up to 20 million people worldwide will be infected with the AIDs virus by the end of this century.

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